

House of Commons  
Welsh Affairs Committee

**OBJECTIVE 1 EUROPEAN FUNDING  
FOR WALES: RESPONSES OF THE  
GOVERNMENT AND THE  
WELSH ASSEMBLY GOVERNMENT  
to the Second Report of the Committee  
of Session 2001-02**

Fourth Special Report  
of Session 2001-02

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## The Welsh Affairs Committee

The Welsh Affairs Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Office of the Secretary of State for Wales (including relations with the National Assembly for Wales).

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Mr Martin Caton MP (*Labour, Gower*)  
Dr Hywel Francis, MP (*Labour, Aberavon*)  
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Mrs Betty Williams MP (*Labour, Conwy*)  
Mr Roger Williams MP (*Liberal Democrat, Brecon and Radnorshire*)

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# FOURTH SPECIAL REPORT

**The Welsh Affairs Committee has agreed to the following Special Report:**

## **OBJECTIVE 1 EUROPEAN FUNDING FOR WALES: RESPONSES OF THE GOVERNMENT AND THE WELSH ASSEMBLY GOVERNMENT TO THE SECOND REPORT OF THE COMMITTEE OF SESSION 2001-02**

1. The Welsh Affairs Committee published its Second Report of Session 2001–02, on Objective 1 European Funding for Wales (HC 520), on 22 May 2002. The Government's response was received on 17 July 2002 and is published as Appendix 1 to this Special Report.
2. A separate response to this Report was received from the Welsh Assembly Government on 18 July 2002 and is published as Appendix 2 to this Special Report.

## **APPENDICES**

### **Appendix 1**

#### **GOVERNMENT RESPONSE TO THE WELSH AFFAIRS COMMITTEE'S SECOND REPORT, SESSION 2001–02: OBJECTIVE 1 EUROPEAN FUNDING FOR WALES (HC 520)**

##### ***(a) Relationships between the different tiers of government***

**We are pleased that the inter-relationship between the different layers of government involved in the delivery of Objective 1 in Wales appears to be working well, but we believe that more could be done to share and disseminate best practice between UK regions. This is clearly an area where the UK Government must take the lead. We recommend that the Government establish a forum for the discussion of these issues and to draw on examples of best practice from other EU regions. It should meet regularly, with each UK Objective 1 region taking it in turn to host it. There should be an opportunity for those involved in the programmes at all levels to get involved, including members of regional and local partnerships (paragraph 12).**

The Government welcomes the Committee's recognition of the good relationships which exist between different layers of Government involved in delivering the Objective 1 programme. Until now, the priority in the UK Objective 1 regions has been to get the new programmes up and running. Now that this has been achieved, the Government agrees that it would be useful to improve exchange of information and best practice between the programmes. The Government agrees that a forum should be established for discussion of these issues, which should meet regularly with the UK regions taking it in turn to host. Because of the similarities between the issues affecting the UK Objective 1 and Objective 2 regions, the Government believes that consideration should be given to widening the forum to include participants from the Objective 2 regions. The DTI, as the co-ordinating Department for Structural Funds implementation issues across the UK, will take the lead in establishing the forum.

***(b) The size of the Assembly's block grant***

**We wholeheartedly endorse the Secretary of State's assessment, that the arguments for providing additional funding to support the Objective 1 programme in Wales are at least as strong now as they were during the 2000 Spending Review. It is vital that Wales is able to obtain maximum benefit from the unique opportunities presented by Objective 1. It will only be able to do so if additional funds are once again provided by the Treasury in the 2002 Spending Review (paragraph 14).**

The Government notes the Committee's view that Wales will only be able to obtain maximum benefit from its Objective 1 status if additional funds are provided by the Treasury in the 2002 Spending Review. In the 2000 Spending Review additional funds of £80 million for 2001-02, £90 million for 2002-03 and £102 million for 2003-04 were allocated to the National Assembly for Wales, beyond the Barnett formula allocation, to enable the Assembly to draw down its full entitlement of Objective 1 funds. The outcome of the 2002 Spending Review was announced on 15th July and additional funds have once again been provided as the Committee recommended. The funding for Objective 1 is £106 million in each of 2003-04, 2004-05 and 2005-06.

***(e) Match funding***

**We believe that there are four features of match funding arrangements which will help to promote the success of Objective 1 programmes:**

- (i) co-ordinating and drawing together the various sources of match funding so that applicants can find out easily, and at an early stage, where they might find funding;**
- (ii) integrating the application process for match funding as closely as possible with the application process for structural funds - for example through the parallel processing available to some types of project in Wales or the co-financing arrangements in South Yorkshire;**
- (iii) flexibility in offering approval in principle to projects where match funding is highly likely to be forthcoming but has not yet been secured, or where it has been secured only for part of the project; and**
- (iv) supporting applicants in developing their match funding applications during the pre-application stage.**

**These are areas which we recommend should be addressed in the UK forum of Objective 1 regions (paragraph 25.(d)).**

The provision of match funding for the Objective 1 programme in Wales is primarily a matter for the National Assembly. However, the Government agrees that there are match funding issues common to all the Objective 1 programmes and that it would be appropriate for these to be addressed in the proposed new forum.

***(g) Progress of the programme: rate of commitment and spend***

**In terms of rate of commitment and rate of spend, Wales appears to be performing well in comparison to its English counterparts. Caution should be exercised when comparing rates of commitment between different Member States as the meaning of "commitment" may be different in different contexts. Avoiding decommitment – "use it or lose it" - is clearly an important target for**

**all Objective 1 programmes, but the rate of commitment and spend is only one measure of a Programme's performance. Far more important than these financial indicators is the performance of the Programme against the measures related to the seven Priorities, such as the creation of new jobs and businesses, improving the ICT infrastructure, regenerating deprived areas and improving the participation of women in the labour market (paragraph 34).**

The Government is monitoring carefully the rates of commitment and spend across all the UK programmes, in order to provide early warning of any possible risk of decommitment of funds. However, the Government agrees that these are not the only measures of programme performance and that performance has also to be judged against the aims and targets established in each of the programmes. The mid-term evaluations which are about to be undertaken will provide a first assessment of the state of progress of the programmes.

***(h) State aids***

**It is important to recognise that Objective 1 status does not automatically entitle the Government or the Assembly to introduce state aids in West Wales and the Valleys. Nonetheless, where there is an opportunity to use tax credits, loans or similar policies as tools of economic regeneration in Wales, they must not be overlooked and we continue to urge the Government to look favourably on any request from the Assembly for the use of state aids under the Article 87(3)(a) derogation (paragraph 40).**

The Government agrees that it is important to recognise that Objective 1 status does not automatically entitle the Government or the Assembly to introduce state aids in West Wales and the Valleys. The Government's fiscal policies were set out in the Budget, and included many measures which will benefit Wales, including for example extending the stamp duty exemption to cover all non domestic transfers in disadvantaged areas (subject to state aids approval), the Community Investment tax credit, and the Research and Development tax credit, which is being to extended to large companies as well as small and medium sized companies.

***(i) What happens after Objective 1?***

**We welcome the Secretary of State's commitment to ensuring that the National Assembly for Wales will play a significant part in formulating the Government's position on the best policy for dealing with the current Objective 1 regions once the current programming period ends. We recommend that National Assembly Ministers should be able to make a direct contribution both prior to and during negotiations with the Commission on this issue (paragraph 43).**

The Government is committed to a process of consultation, involving all the nations and regions of the UK, on the position to be adopted by the UK towards the future of the Structural Funds beyond the end of the current programming period. Discussions in Europe on this issue are still at an early stage and all Member States are still developing their positions. National Assembly officials are already involved in the consultation process at the European level, for example through participation in the Commission seminars on future cohesion policy, the first of which took place in Brussels on 27-28 May. The Government envisages that National Assembly Ministers will have an important role to play in developing the UK position and promoting it in negotiations with the Commission and other Member States, in accordance with the Concordat on Co-ordination of European Union Policy Issues.

**17th July 2002**

**Letter to the Chairman of the Committee from the First Minister**

**HOUSE OF COMMONS WELSH AFFAIRS COMMITTEE REPORT INTO  
OBJECTIVE 1 EUROPEAN FUNDING FOR WALES**

I am grateful to have had sight of the Committee's report and have found many of your recommendations interesting and helpful.

I was pleased to cooperate with the Committee earlier this year in giving evidence to your members, and in the same spirit, thought it would be helpful to your members to provide a response on behalf of the Welsh Assembly Government – this is attached. You may like to note that the general nature of the response was discussed by Andrew Davies AM, Minister for Economic Development, with his subject committee on 12 June.

**WELSH ASSEMBLY GOVERNMENT'S RESPONSE TO THE WELSH  
AFFAIRS COMMITTEE'S SECOND REPORT, SESSION 2001–02:  
OBJECTIVE 1 EUROPEAN FUNDING FOR WALES (HC 520)**

*(a) Relationships between the different tiers of government*

We are pleased that the inter-relationship between the different layers of government involved in the delivery of Objective 1 in Wales appears to be working well, but we believe that more could be done to share and disseminate best practice between UK regions. This is clearly an area where the UK Government must take the lead. We recommend that the Government establish a forum for the discussion of these issues and to draw on examples of best practice from other EU regions. It should meet regularly, with each UK Objective 1 region taking it in turn to host it. There should be an opportunity for those involved in the programmes at all levels to get involved, including members of regional and local partnerships (paragraph 12).

The Welsh Assembly Government is pleased with the Committee's recognition that the relationship between the different layers of government involved in the delivery of Objective 1 in Wales is working well. Regular contact is made between desk officers involved in the Objective 1 Programmes in different parts of the UK. The Department for Trade and Industry (DTI) also holds regular meetings with Devolved Administrations and Whitehall Departments dealing with Structural Funds. The Welsh Assembly Government fully supports the proposal for a forum and look forward to welcoming other UK regions to Wales in due course.

*(b) The size of the Assembly's block grant*

We wholeheartedly endorse the Secretary of State's assessment, that the arguments for providing additional funding to support the Objective 1 programme in Wales are at least as strong now as they were during the 2000 Spending Review. It is vital that Wales is able to obtain maximum benefit from the unique opportunities presented by Objective 1. It will only be able to do so if additional

**funds are once again provided by the Treasury in the 2002 Spending Review (paragraph 14).**

As regards the current Spending Review, the Welsh Assembly Government is pursuing the commitment made in Putting Wales First. We have revisited the forecast level of EU grants for the structural funds programmes over the period 2003-2004 to 2005-2006 and have revised our requirements. These have been conveyed to the Secretary of State for Wales and the Chief Secretary. I fully expect that the SR2002 settlement will reflect the revised forecasts.

***(c) Administration of the Assembly's block grant***

**It is of course not satisfactory that WEFO should be missing its target for processing applications in more than half of all cases. The First Minister told us that WEFO has demonstrated its ability to meet the target when applications are "strong and well-prepared". It is important to recognise when comparing WEFO's performance in this area with that of other Objective 1 regions, that the way in which unsatisfactory applications are dealt with can have a significant impact on performance figures. The driving factor here should be the need to assess each application fairly and to develop strong and innovative projects, not the desire to meet performance targets (paragraph 17).**

The time taken to process applications depends on their quality and complexity. WEFO actively works with partnerships and applicants to improve the quality of applications and to reduce the time taken from formal application to appraisal.

The Assembly welcomes the Committee's acknowledgement that fairness is more important than meeting targets and agrees that the pre-application stage is of great importance. Advice to project applicants is available from a wide range of organisations, including WEFO, local and regional partnerships, the private sector unit and the voluntary sector unit.

***(d) It is important that prospective bidders do not waste time and money on projects which are unlikely to be approved. It is equally important that poor quality applications do not result in valuable projects being rejected or applications taking an unnecessarily long time. For these reasons, the pre-application stage is extremely important. The quality of the application is principally the responsibility of the project sponsor but it is unrealistic to expect that small businesses ... will be able to produce good, sound applications without a great deal of input from WEFO. We believe the work by WEFO with prospective bidders at the pre-application stage is the most important factor in ensuring that the application process runs as smoothly as possible. It is particularly important that bidders are made aware, at the earliest stage of the process, how long the pre-application stage is likely to take (paragraph 20).***

It is a key task of the secretariats of local and regional partnerships, and the voluntary and private sector units, to help applicants develop their projects; WEFO will also offer advice. We are developing a protocol on the quality of advice to be given to applicants, which will encourage secretariats and the units to make bidders aware of how long the development stage of a project, including consultation with other projects, is likely to take.

***(e) Match funding***

**We believe that there are four features of match funding arrangements which will help to promote the success of Objective 1 programmes:**

- (i) co-ordinating and drawing together the various sources of match funding so that applicants can find out easily, and at an early stage, where they might find funding;**
- (ii) integrating the application process for match funding as closely as possible with the application process for structural funds - for example through the parallel processing available to some types of project in Wales or the co-financing arrangements in South Yorkshire;**
- (iii) flexibility in offering approval in principle to projects where match funding is highly likely to be forthcoming but has not yet been secured, or where it has been secured only for part of the project; and**
- (iv) supporting applicants in developing their match funding applications during the pre-application stage.**

**These are areas which we recommend should be addressed in the UK forum of Objective 1 regions (paragraph 25.(d)).**

(i) The Assembly recognises that all applicants may not be aware of the full range of opportunities available for match funding and have considered how we can make information more widely available. To assist applicants to identify suitable sources of match funding WEFO are putting together a guide. This will be available on the WEFO web-site.

(ii) Wales has considered but not introduced the ESF co-financing scheme which was developed in England, and particularly South Yorkshire. It was felt that such a system would undermine the system of local partnerships, which has been established in Wales. Parallel processing of applications for matchfunding has, however, been introduced where the Assembly Government's Local Regeneration and Pathway to Prosperity Fund are being used as match.

(iii) WEFO can be flexible with revenue projects. Applications are approved as long as the first year's funding is in place. Match funding for subsequent years can be reviewed after approval.

(iv) WEFO has further developed its website to provide information on the sources of funding and contact details. They have also streamlined the parallel processing for the 3 Assembly Government schemes (Pathway to Prosperity, Voluntary Sector Grants and LRF) so that these do not have to be pre-agreed. They have also joined the Welsh Funders' Forum and are now working through that body to provide more straightforward arrangements.

***(f) Involving the private and voluntary sectors***

**From the wide range of possible approaches to complying with the Commission's advice on the composition of partnerships, the Assembly Government has decided to adopt a fairly rigid set of rules. The First Minister told us that one of the main benefits of this was that the system in Wales was robust against challenges from the Commission, but witnesses from the Commission told us that they had never**

challenged the composition of a member state's partnerships and suggested that to do so would be difficult because the issue of subsidiarity was involved. Despite its inflexibility, the composition of the partnerships in Wales seems to be highly regarded by both the Commission and the English regions. The Assembly has been particularly successful in securing a gender balance on the partnerships. We are concerned, however, about the obstacles to participation by representatives of the private and voluntary sectors. It does appear that for many small businesses, the cost of participating in the partnerships is prohibitive and that there may therefore be a case for some more systematic form of reimbursement for loss of earnings and out-of-pocket expenses. Likewise, it is important that the proceedings of the partnerships are readily comprehensible to those people who do not have a great deal of experience of participating in EU funding programmes (paragraph 3).

The Welsh Assembly Government welcomes the Committee's comments on the strength of the partnership system in Wales and our success in achieving gender balance. Such an achievement could not have been made without the valuable work of all partners and in particular the contribution that the European Equality Partnership made to securing gender balance on partnerships.

The Voluntary and Private sector members of Programme Monitoring Committee's and Strategy Partnerships are able to claim travel and subsistence costs when they attend meetings. WEFO has also advised local and regional partnerships that they may wish to introduce similar arrangements. The Welsh European Funding Office follows the Assembly Government's policy on reimbursement, and does not currently pay compensation for those attending meetings. The Welsh Assembly Government is currently reviewing its policy on reimbursement.

The Welsh Assembly Government fully appreciates that Structural Funds can seem complex to those who are not involved on a regular basis. For this reason WEFO are preparing a series of simple and informative fact sheets that will provide information about a range of issues relating to Structural Fund programmes in Wales.

***(g) Progress of the programme: rate of commitment and spend***

**In terms of rate of commitment and rate of spend, Wales appears to be performing well in comparison to its English counterparts. Caution should be exercised when comparing rates of commitment between different Member States as the meaning of "commitment" may be different in different contexts. Avoiding decommitment – "use it or lose it" - is clearly an important target for all Objective 1 programmes, but the rate of commitment and spend is only one measure of a Programme's performance. Far more important than these financial indicators is the performance of the Programme against the measures related to the seven Priorities, such as the creation of new jobs and businesses, improving the ICT infrastructure, regenerating deprived areas and improving the participation of women in the labour market (paragraph 34).**

The Welsh Assembly Government welcomes the Committee's comments on Wales' progress on commitment and spend. We have successfully launched the biggest Structural Fund programme seen in Wales. As at the end of June 2002 over £335 million of Objective 1 EU funds have been committed to 575 projects. This means that investment of over £767 million has already been secured for Wales.

The enhanced electronic database which WEFO is developing contains a comprehensive range of measure level output data, including performance indicators as well as financial data. Each project identifies a set of activities and results from the targets for the specific measure under which they have been funded. These indicators, totalling 179 across the 37 Measures under the 7 Priorities, are contained in the Programme Complement (PC). They include, for example, numbers of new jobs and small businesses which will be created and people who will benefit from training as well as indicators relating to ICT and transport infrastructures. In addition to these figures, the database enables data to be broken down to reflect cross-cutting themes and local authority splits.

The data are currently being used to produce reports for the Programme Monitoring Committee and for the Assembly which compare predicted measure level data with PC targets. The final phase of the database development is due to be completed in Autumn 2002 and after this time, actual figures given by projects will be included. This will enable the progress of the Programme to be monitored and enable the calculation of its impact after all projects have been completed.

#### *(h) State aids*

**It is important to recognise that Objective 1 status does not automatically entitle the Government or the Assembly to introduce state aids in West Wales and the Valleys. Nonetheless, where there is an opportunity to use tax credits, loans or similar policies as tools of economic regeneration in Wales, they must not be overlooked and we continue to urge the Government to look favourably on any request from the Assembly for the use of state aids under the Article 87(3)(a) derogation (paragraph 40).**

The Welsh Assembly Government agrees that any opportunity to maximise the benefit of Objective 1 status by way of fiscal variations and other measures ought to be pursued by the UK Government as a matter of priority. The Welsh Assembly Government has drawn up an Action Plan of various measures which could be used and has discussed these with the UK Government. We await the outcome of the UK Government's State Aids negotiations on Stamp Duty Exemptions and Community Investment Tax Credit. We will continue to press for greater support for the Objective 1 areas.

#### *(i) What happens after Objective 1?*

**We welcome the Secretary of State's commitment to ensuring that the National Assembly for Wales will play a significant part in formulating the Government's position on the best policy for dealing with the current Objective 1 regions once the current programming period ends. We recommend that National Assembly Ministers should be able to make a direct contribution both prior to and during negotiations with the Commission on this issue (paragraph 43).**

The Welsh Assembly Government is already participating fully in the current debate about the future of the structural funds, which includes discussion of Objective 1 areas as well as all other aspects of cohesion and structural funds policy. We look forward to making our direct contribution at the more formal negotiation stage at the UK level, because structural funds policy is not devolved, as well as continuing to engage with partners in Wales and elsewhere on this very important subject.

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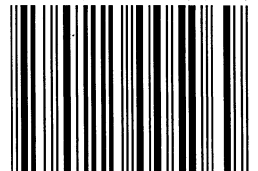
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